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Colombia

Biofuels Annual

Biofuels Import Competition Provokes Trade Protection

Approved By:

Anthony J. Gilbert, Agricultural Attaché

Prepared By:

Leonardo Pinzon, Agricultural Specialist

Report Highlights:

The Government of Colombia (GOC) has not communicated a clear policy vision for the biofuels industry despite promises to increase blend mandates as new production facilities come online in 2015. Current mandates remain unchanged for 2014 resulting in little stimulation in production or consumption patterns. A U.S. ethanol export surge has motivated the Colombian cane sugar industry to seek greater trade protection, resulting in the passage of a GOC resolution that establishes policy conditions to implement non-tariff barriers to trade.

Post:

Bogota

Executive Summary:

In 2013, the value and volume of U.S. ethanol exports to Colombia hit record levels because of trade preferences under the U.S.-Colombia Trade Promotion Agreement (CTPA), low U.S. corn prices, and Government of Colombia (GOC) ethanol policies that set above market prices to incentivize domestic ethanol production and satisfy local blend mandates. Compared to 2012, total export values and volumes jumped 4,520 and 4,270 percent, respectively, to US\$11 million and 16.7 million liters. The buying enthusiasm of U.S. ethanol continues this year with export values reaching US\$9.2 million from January through March 2014. The surge in U.S. ethanol imports was significant enough to motivate the Colombian cane sugar and biofuels industry to seek government protection in the form of trade restrictive regulations allowing the GOC to set import levels and establish a licensing mechanism for importing firms.

The biofuels blend mandates originate from Decree 4892 which established the policy framework for blending levels. The GOC temporarily increased the ethanol blend mandate from E8 to E10 (a blend of anhydrous ethanol from eight to 10 percent in gasoline) between December 2013 and January 2014 aimed at reducing inventories at Colombian ethanol distilleries. In February 2014, the blend was reduced to previous E8 levels. Currently, the GOC biofuel blending mandates remain at B10 (a blend of 10 percent palm ethyl esters in diesel) and a range of E8 to E10.

New investments in commercial ethanol and biodiesel production facilities will support expanded production in 2015. The annual production capacity of the new facilities is estimated to be up to 120 million liters of ethanol and 100 million liters of biodiesel per year. The GOC has pledged to increase mandates as those facilities come online. Given that there are few technology upgrades needed for the primary consumer of Colombian biofuels, gasoline and diesel powered vehicles, the GOC will likely follow through with the pledge. Nevertheless, no expanded vision for biofuels policy has been communicated beyond the pledge to incrementally increase current blend mandates.

In 2015, post estimates are that Colombian ethanol production will increase to 430 million liters, up seven percent from the previous year as new ethanol distilleries come online. Biodiesel production will increase to 610 million liters in 2015, increasing 9 percent from the previous year, also due to new production facilities.

Colombian Africa palm oil area planted continues to expand and cane sugar production consistently exceeds local demand. The surplus generated by both feedstocks can easily sustain increases in biofuel production, motivating the biofuels industry to demand further increases in blend mandate levels.

Author Defined:

The GOC supports the production and use of biofuels with blend mandates aimed at diversifying sources of energy, reducing dependency on fossil-fuels and proactively addressing greenhouse gas emissions. There is an understanding by the Colombian agro-industry that biofuels production positively impacts rural employment. There are no import restrictions on diesel fuels and the publicly owned Colombian Petroleum Company (ECOPETROL) has the only refinery that blends biodiesel fuels with imported and domestic diesel for distribution throughout the country.

Biofuel production facilities receive a special tax designation as an industrial free trade zone and therefore pay zero taxes on revenues. Biofuel sales are also excluded from paying a GOC 16 percent value-added-tax. Ethanol sales are exempt from local taxes; however, biodiesel sales are levied a local tax of US\$0.15 per gallon.

The Ministry of Mining and Energy (MME) regulates the blend levels of gasoline and diesel with biofuels and determines the market price for gasoline and diesel based on a formula which includes a set minimum price paid to producers of biofuels as part of the blend. The MME calculates a monthly price for gasoline and diesel per gallon, including the prices applied to ethanol and biodiesel. To set the price for ethanol the formula applies a parity price for refined sugar based on the London Sugar Futures. The prices for palm oil biodiesel are set with input from the Colombian Federation of Palm Producers (FEDEPALMA).

On April 29, 2014, the GOC issued Resolution 90454 ostensibly to restrict ethanol imports by establishing additional authorities granted to the MME to determine levels of imports to meet domestic ethanol demand and establish an approval process for biofuel importers. That is to say, the MME will only authorize ethanol imports if domestic supplies fall short of complying with the blend mandate. The MME rationale for the resolution is as follows: “although the resolution imposes a barrier to trade that can be understood as a restriction of free trade, the new regulation is justified under GOC policies to achieve the goals of (i) being energy self-sufficient and (ii) promote the development of the agricultural sector”.

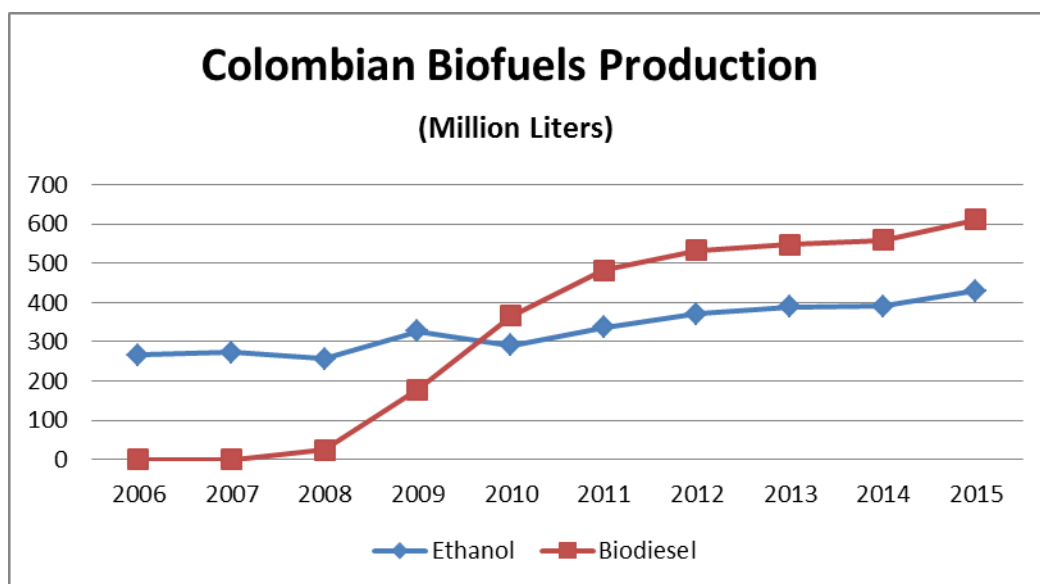
Also, the GOC temporarily increased the ethanol blend mandate from 8% to 10% between November 2013 and January 2014. This measure was issued to address increasing ethanol inventories as a result of import competition and pending the approval and implementation of Resolution 90454 and probable restrictions on imports. In January 31, 2014, the GOC issued Resolution 90153 to return ethanol blend mandate to E8 even though Resolution 90454 had yet to be finalized.

Colombia is a net exporter of palm oil and sugar, supporting a reliable source of inputs for the domestic biofuel industry with little concern about the impacts on both feed stocks and disruptions to local supply. As well, if the domestic biofuel needs are not provided from local sources, demand can be satisfied with imports. Biodiesel production has stimulated rural development through expanded palm cultivation creating new opportunities for rural income and employment. However, the GOC’s flexibility on maintaining or adjusting blend mandates has created concerns with the biofuels industry given the disconcerting lack of clarity that blend mandates will be consistently increased over time.

Bioethanol and Biodiesel

Production:

Ethanol production is derived entirely from cane sugar, while all biodiesel is produced from African palm. Colombia is the fourth largest producer of African palm globally after Indonesia, Malaysia and Thailand. Cane sugar and palm oil production sufficiently exceed local demand creating a production surplus for biofuels and/or export. The cane sugar and Africa palm feedstock neither competes with the food supply nor takes land from alternative food crops. Biofuel production has displaced 48 percent of sugar and 50 percent of palm oil exports with no impacts to domestic markets.



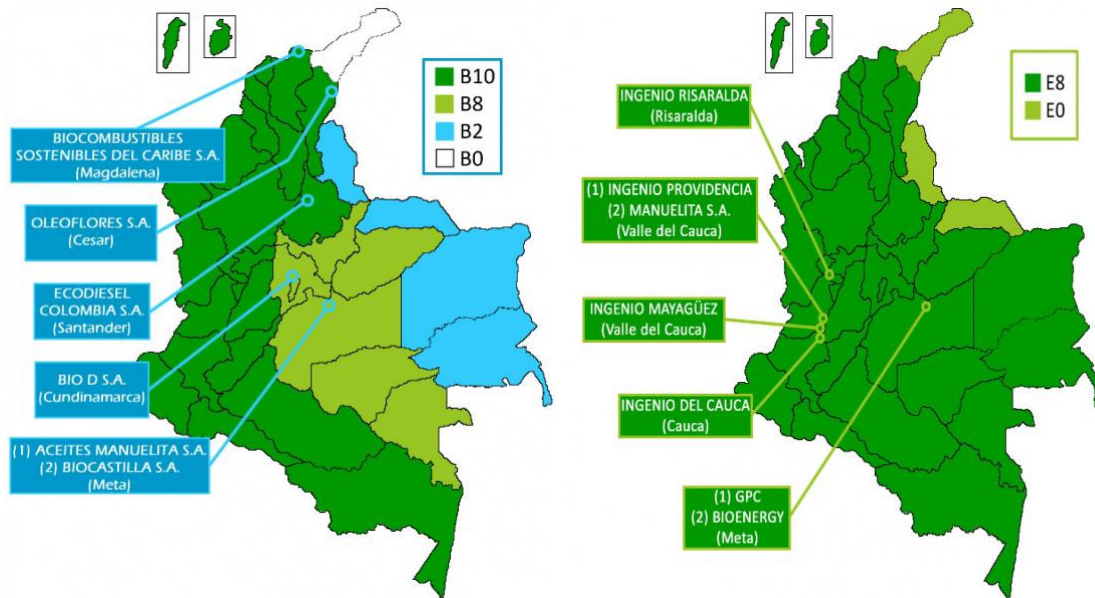
All of Colombia's ethanol production is supplied by five ethanol distilleries near the city of Cali, in south central Colombia. All ethanol plants are clustered with larger industrial sugar production and manufacturing facilities. There is an additional facility to produce ethanol derived from yucca (cassava) as a feedstock; however, the facility is mostly a failure given limited yucca supplies. A new ethanol plant at the Riopaila-Castilla sugar mill should be operational in 2015, adding to the Colombian ethanol productive capacity to about 120 million liters per year. Current ethanol plant production for all facilities averages about 1.25 million liters per day

There are nine biodiesel plants using palm oil as the primary feedstock. Four of these plants are owned by palm oil producers, while one plant is majority owned by ECOPETROL. These five plants are fully operational and produce about 95 percent of the total Colombian biodiesel production. A new biodiesel plant is projected to come online in 2015 and will increase domestic annual production capacity to 108.7 million liters. In 2015, the total Colombian production capacity of biodiesel is estimated to reach 733.2 million liters.

Consumption:

Colombia biofuels consumption is entirely dependent on GOC blend mandates. Ethanol blend levels are E8 for most the country and E10 at the major blending facilities. Ethanol consumption is expected to parallel increases in production from new ethanol plants, reaching a consistent E10 blend throughout the country by 2015. For biodiesel, blend levels are B8 for blending facilities near to Bogota and the Department of Guaviare and B10 for the Caribbean coast, central and Pacific coast of Colombia.

Biodiesel consumption is currently operates under the B10 blend mandate in the most populous regions of Colombia, covering 85 percent of the total population. Some remote areas along the eastern plains and frontier only blend between B2 and B8, respectively. The variable biofuel blend level mandates for the different regions of Colombia are illustrated below:

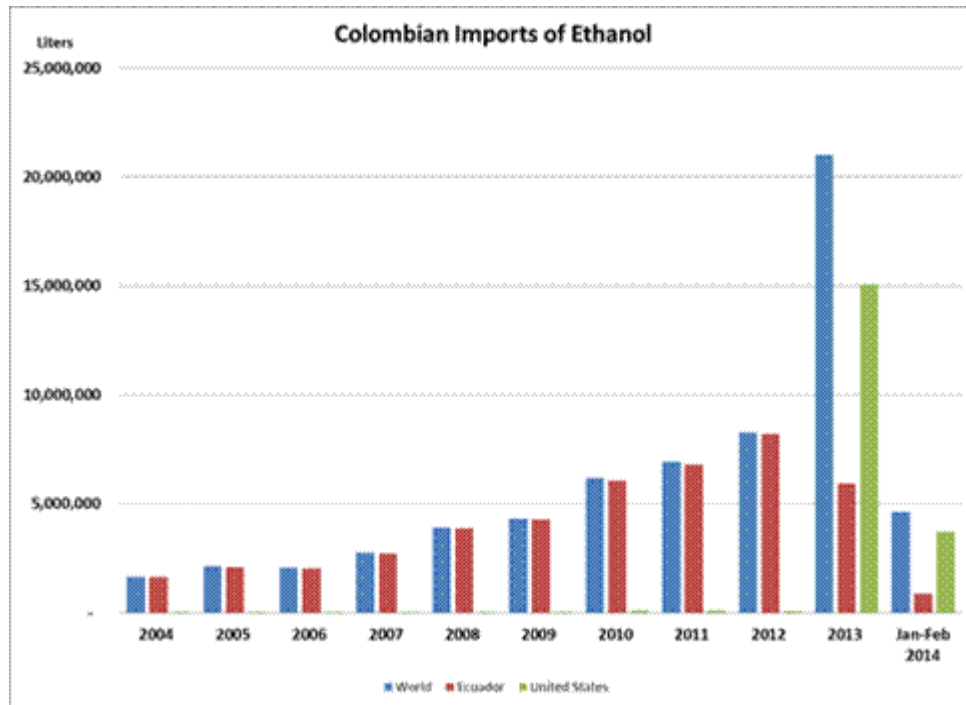


Most urban centers have been replacing older public transportation buses with more modern vehicles that are capable of using cleaner biofuels, marginally stimulating consumption. Both the ethanol and biodiesel industry organizations have conducted research and opened dialogue with the U.S. Environmental Protection Agency to seek recognition that Colombian palm oil-based biodiesel and cane-based ethanol are sustainable with significant greenhouse gas reductions of up to 80 and 40 percent, respectively. The Colombian Biofuels Federation (FEDEBIOCOMBUSTIBLES) has expressed concerns to the GOC that the extensive Colombian mining sector ignores blend mandates and consumes 100 percent fossil fuel-based diesel, indicating that there is significant potential to increase the biofuel demand if that industry would abide by GOC biofuel blend mandates.

Trade:

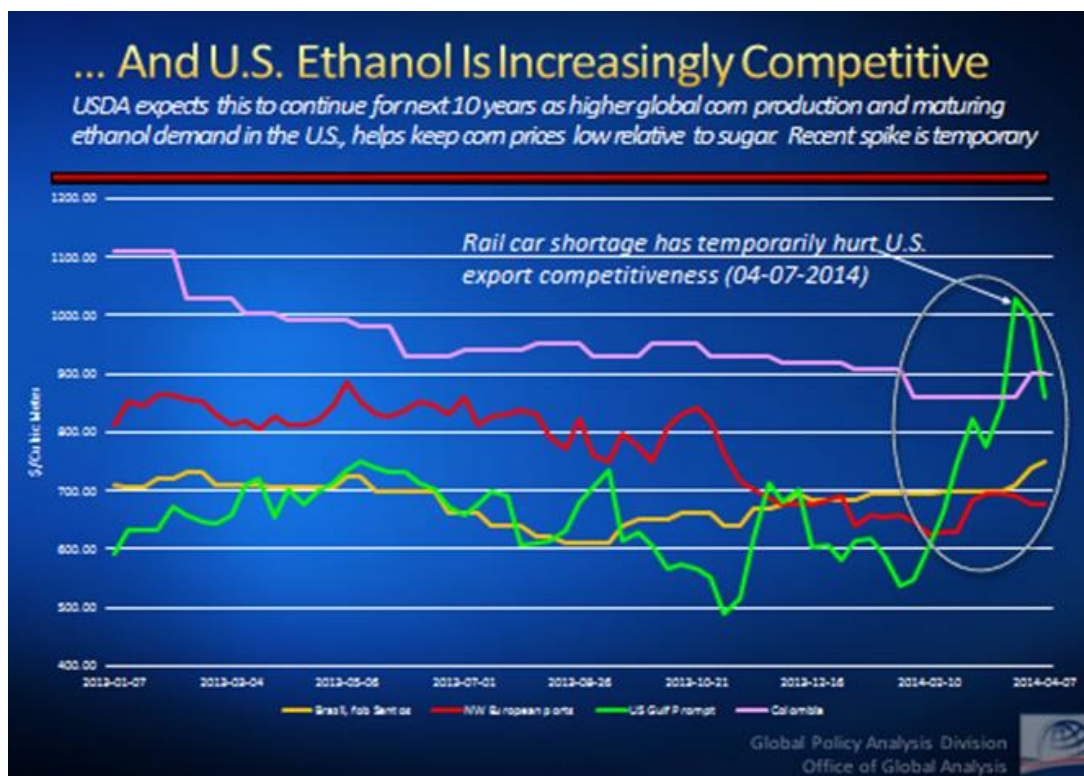
Colombia neither imports nor exports palm-based biodiesel; however, the biofuels industry aspires to become an exporter of biodiesel as palm area expands and new biodiesel production facilities come online.

Colombian imports of ethyl alcohol are mainly for the liquor industry with Cuba as the main foreign supplier. Ethanol imports for biofuels represent only one percent of Colombian ethanol biofuel consumption with imports from primarily Ecuador. Compared to 2012, total U.S. ethanol export values and volumes jumped 4,520 and 4,270 percent, respectively, to US\$11 million and 16.7 million liters. In the last quarter of 2013, a surge of biofuel ethanol imports from the United States reached 21 million liters, or about 5 percent of the domestic production for the entire calendar year. The surge gave the United States 72 percent of the import market share with 90 percent of the import volume concentrated in the last three months of 2013 (October through December). The buying enthusiasm of U.S. ethanol continues this year with export values reaching US\$9.2 million from January through March 2014. The graph below illustrates the U.S. ethanol import surge compared to the primary competitor, Ecuador, and the rest of the world:



This concentration of imports at the end of 2013 represented close to 15 percent of total Colombian ethanol consumption in the same period. The surge in U.S. ethanol imports was significant enough to motivate the Colombian cane sugar and biofuels industry to seek government protection in the form of trade restrictive regulations allowing the GOC to set import levels and establish a licensing mechanism for importing firms. These regulations were proposed and approved by the GOC Ministry of Mining and Energy in April 2014 in spite of the CTPA, which provides zero duties for U.S. ethanol and no special provisions, such as trade safeguards. The potentially trade restrictive regulations limiting imports have yet to be implemented and are being monitored by the U.S. Government. As the price of corn remains low, U.S. corn-based ethanol will continue to be competitive against domestic and Andean Community (e.g. Ecuador) trade partners. In addition, U.S. ethanol trade preferences under the CTPA are more favorable than the Southern Common Market (e.g. Brazil), with ethanol import duties at about 10%.

Since March 2014, U.S. ethanol prices have been extremely volatile -- with prices moving from historically low levels in January to the higher levels in March 2014 as a result of railcar bottlenecks reaching the Port of Houston. As the railcar bottleneck eases and prices stabilize, even when shipping charges to Cartagena are added to the Gulf spot price, U.S. ethanol landed in Colombia is competitively priced against Colombia's administered domestic price and against the market prices of competitors. The graph below illustrates the pricing trends for ethanol:



The expectation is that U.S. ethanol exports to Colombia will maintain a strong pace while interest in cane-based ethanol from export competitors will remain lackluster as long as feedstock prices remain competitive. Moreover, as long as market pricing based on local supply-demand conditions and competitor prices are ignored in favor of GOC administered prices, U.S. ethanol will continue to displace some domestic ethanol production with low corn feedstock prices.

Stocks:

Colombia does not have programs to encourage storage or long-term stocks of biofuels. However the regulation on fuels establishes the stock needs to adequately supply the market at 10 days of total demand. Since biofuels are part of the fuel chain, this requirement should apply to biofuels as well.

Tables

Biodiesel (Liters - Thousand)								
Calendar Year	2008	2009	2010	2011	2012	2013	2014	2015
Beginning Stocks	0	1,013	5,184	8,286	10,973	3,089	4,089	4,089
Production	24,713	177,271	365,802	481,587	532,620	547,127	558,070	610,000
Imports								
Exports								
Consumption	23,700	173,100	362,700	478,900	540,500	548,608	556,837	608,000
Ending Stocks	1,013	5,184	8,286	10,973	3,089	4,089	4,089	6,089
Production Capacity								
Number of Biorefineries	2	6	6	6	9	9	9	9
Nameplate Capacity	50,000	543,500	570,675	570,675	570,675	570,675	570,675	670,675
Capacity Use (%)	49.4%	32.6%	64.1%	84.4%	93.3%	95.9%	97.8%	91.0%
Feedstock Use (1,000 MT)								
Palm oil	23	163	337	443	490	505	505	510
Feedstock B								
Feedstock C								
Feedstock D								
Market Penetration (Liters - specify unit)								
Biodiesel, on-road use								
Diesel, on-road use								
Blend Rate (%)								
Diesel, total use								

Ethanol Used as Fuel and Other Industrial Chemicals (Liters - Million)										
Calendar Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Beginning Stocks	2	4	5	5	8	7	9	5	15	10
Fuel Begin Stocks	2	4	5	5	8	7	9	5	15	10
Production	266	272	256	327	291	337	370	388	390	430
Fuel Production	266	272	256	327	291	337	370	388	390	430
Imports	53	48	30	32	70	55	89	138	120	120
Fuel Imports	2	3	4	4	6	7	8	21	10	10
Exports										
Fuel Exports	0	0	0	0	0	0	0	0	0	0
Consumption	264	269	256	324	293	335	366	368	368	372
Fuel Consumption	264	269	256	324	293	335	366	368	368	372
Ending Stocks	4	5	5	8	7	9	5	15	10	10
Fuel Ending Stocks	4	5	5	8	7	9	5	15	10	10

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